

Message Text

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ACTION EUR-12

INFO OCT-01 IO-13 ISO-00 AGRE-00 CEA-01 CIAE-00
COME-00 DODE-00 EB-08 FRB-03 H-01 INR-10 INT-05
L-03 LAB-04 NSAE-00 PA-01 CTME-00 AID-05 SS-15
STR-07 ITC-01 TRSE-00 SP-02 SOE-02 OMB-01 DOE-15
NSCE-00 SSO-00 ICAE-00 INRE-00 DOEE-00 NEA-10
EA-10 OIC-02 /132 W
-----047852 171805Z /42

O R 171739Z APR 78
FM AMEMBASSY PARIS
TO SECSTATE WASHDC IMMEDIATE 0200
INFO ALL OECD CAPITALS
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E.O. 11652: N/A
TAGS: EGEN, OECD
SUBJECT: XCSS APRIL 14: THE NEED FOR POSITIVE ADJUST-
MENT POLICIES

1. SUMMARY: XCSS PRELIMINARY DISCUSSION OF SECRETAR-
IAT'S PAPER, CE(78)8, ON THE NEED FOR POSITIVE
ADJUSTMENT POLICIES REVEALED BROAD CONSENSUS THAT WORK
ON THIS SUBJECT WAS ON RIGHT TRACK AND SHOULD BE CON-
TINUED. DELS ALSO AGREED ISSUE SHOULD BE BROUGHT
BEFORE OECD MINISTERIAL AND REFLECTED IN COMMUNIQUE
LANGUAGE, BUT HANDLED SEPARATELY FROM TRADE PLEDGE.
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END SUMMARY

2. NOTING LATE DISTRIBUTION OF DOCUMENTATION, CHAIR-
MAN SUGGESTED THAT XCSS HAVE PRELIMINARY DISCUSSION OF
ISSUES RAISED IN CE(78)8 BUT NOT NECESSARILY REACH
POLICY CONCLUSIONS. IN INTRODUCTORY DISCUSSION, SEC-
RETARIAT (MARRIS) BRIEFLY SUMMARIZED PAPER, STRESSING

NCREASED NEED FOR ADJUSTMENT AT TIME WHEN SLOW GROWTH WAS MAKING ADJUSTMENT MORE PAINFUL. MARRIS NOTED THAT MANY POLICIES WHICH WERE ADOPTED TO BRIDGE RECESSION IN 1974-75 NOW, DUE TO WEAKNESS OF RECOVERY, SERVE TO INHIBIT ADJUSTMENT, PROP UP WEAK SECTORS AND CREATE RIGIDITIES. THESE POLICIES THREATEN SUSTAINED RECOVERY BY REDUCING EFFICIENCY AND LOCKING RESOURCES INTO THE WRONG PLACES. GIVEN THIS CLOSE INTERRELATIONSHIP BETWEEN STRUCTURE AND GROWTH, MARRIS CONCLUDED THAT MACRO AND ADJUSTMENT POLICIES MUST GO HAND-IN-HAND. WIDE RANGE OF GOVERNMENT POLICIES WHICH AFFECT ADJUSTMENT MAKES IT DIFFICULT TO DEVISE A POSITIVE ADJUSTMENT POLICY -- AS DO MULTIPLICITY OF INTEREST GROUPS WHO BENEFIT FROM CURRENT SELECTIVE MEASURES. MARRIS URGED THAT MINISTERS SHOULD BE SENSITIZED TO DANGERS OF CURRENT TRENDS IN INDUSTRIAL, MANPOWER, REGIONAL POLICY AND THAT THEY SHOULD ACCEPT NEED FOR A SHIFT TO "POSITIVE" POLICIES, ALONG LINES OF PART IV OF PAPER, IN THE MINISTERIAL COMMUNIQUE.

3. DELEGATES GENERALLY WELCOMED SECRETARIAT PAPER AND FELT THAT WORK WAS PROCEEDING ALONG THE CORRECT LINES. SOME DELS (UK, FRANCE) FELT SECRETARIAT APPROACH DID NOT ADEQUATELY REFLECT FACT THAT CERTAIN POLICIES, ALTHOUGH HAVING NEGATIVE EFFECTS ON EFFICIENT OFFICIAL USE

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CIENCY OR OTHER ASPECTS, WERE NECESSARY FOR SOCIAL, HUMANITARIAN, OR POLITICAL REASONS. UK, FRENCH, AND SWEDES ARGUED THAT INTERVENTION COULD NOT BE VIEWED IN TERMS OF "BLACK AND WHITE," BUT EACH MEASURE HAD TO BE JUDGED ON ITS MERITS. NECESSITY TO "SOFTEN THE BLOW" OF CHANGE ON EMPLOYMENT WAS FREQUENTLY CITED AS JUSTIFICATION OF SPECIFIC POLICIES -- BUT SOME, PARTICULARLY U.S. (UNDER SECRETARY COOPER), NOTED THE NEED TO CONSIDER WHO BEARS THE COST WHICH HAS BEEN SHIFTED FROM THE DECLINING INDUSTRY. UNDER FLEXIBLE EXCHANGE RATES, FOR EXAMPLE, A COUNTRY'S OWN EXPORT INDUSTRIES PAID THE PRICE. SEVERAL DELS (JAPAN, GERMANY) FOLLOWED COOPER'S LEAD IN CAUTIONING AGAINST DISTINGUISHING BETWEEN RISING AND DECLINING SECTORS, SINCE IN MANY CASES PROBLEMS INVOLVE INDIVIDUAL FIRMS AND NOT ENTIRE SECTORS.

4. FRG AND JAPAN BOTH STRESSED IDEA THAT GOVERNMENT INTERVENTION SHOULD BE LIMITED IN BOTH SCOPE AND TIME SPAN. JAPANESE FELT IT WAS IMPORTANT FOR OECD TO

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DECLARE INTENTION TO MAINTAIN OPEN ECONOMIES AND TO
FACILITATE INDUSTRIAL RESTRUCTURING AND ENTERPRISE
REFORM. ALL AGREED THAT FASTER GROWTH WOULD BE THE
BEST SINGLE REMEDY FOR THE PROLIFERATIONS OF DEFENSIVE
POLICIES. AUSTRALIA AND NEW ZEALAND DELS COMPLAINED
THAT SECRETARIAT PAPER STARTED FROM "EUROPEAN"
INDUSTRIAL GOODS POINT-OF-VIEW AND TOTALLY IGNORED
OBVIOUS NEED FOR POSITIVE ADJUSTMENT POLICIES IN
AGRICULTURE SECTOR, AS WELL AS ROLE PLAYED BY POOR
POLICIES IN RAW MATERIALS AREA IN INDUSTRIAL SECTOR
PROBLEMS. AUSTRALIA ALSO EXPRESSED STRONG OPPOSITION
TO CONCEPT OF SELECTIVE SAFEGUARDS, SAYING THIS WOULD
ESTABLISH A NEW "GSP" -- GENERALIZED SYSTEM OF
PROTECTION. THERE WERE FEW COMMENTS ON ROLE OF
"NEWLY INDUSTRIALIZING COUNTRIES" OTHER THAN UK AND
FRENCH COMMENTS THAT SECRETARIAT PAPER GAVE
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THEM PERHAPS TOO LITTLE WEIGHT AS SOURCE OF ADJUSTMENT PRESSURE.

5. ALL DELS WERE INCLINED TO RECOMMEND INCLUSION OF GOVERNMENT INTERVENTION POLICY AS TOPIC FOR CONSIDERATION BY MINISTERS IN JUNE. JAPAN AND CANADA (PERM REP MCLEAN) FELT LINK TO TRADE PLEDGE WOULD EVENTUALLY BE DESIRABLE, BUT FELT NO SUCH LINK SHOULD BE ATTEMPTED THIS YEAR, TO AVOID DANGER OF DILUTING PLEDGE. DELS FELT IT WAS TOO EARLY TO PREDICT EXACTLY WHAT MINISTERS COULD APPROVE. U.S. SUGGESTED TWO POINTS WHICH COULD APPROPRIATELY FIND A PLACE IN THE MINISTERIAL COMMUNIQUE:

(1) CONCERN ABOUT RIGIDITY AND LOSS OF EFFICIENCY CAUSED BY DEFENSIVE POLICY MEASURES AND THE DANGER SUCH MEASURES WILL BACKFIRE AS ECONOMIES NEAR HIGH EMPLOYMENT; AND

(2) A RECOMMENDATION THAT SECTORAL POLICY MEASURES BE WITHDRAWN IN FAVOR OF GENERAL POLICIES AS GROWTH TAKES OFF.

UK DEL (BUTLER) WAS MOST CAUTIOUS ON PRESENTATION OF SUBJECT TO MINISTERS, URGING THAT TOPIC MUST BE CAREFULLY PREPARED SO AS TO ELICIT SUPPORT FOR THE IDEAS AND NOT PROVOKE A POLITICAL REACTION THAT OECD WAS UNCONCERNED ABOUT SUPPORTING EMPLOYMENT. FRENCH DEL (FROMENT-MEURICE), ON OTHER HAND, EXPRESSED STRONG AGREEMENT WITH NEED FOR POSITIVE ADJUSTMENT POLICIES AND THOUGHT IT WOULD BE USEFUL TO HAVE MINISTERS' ATTENTION DRAWN TO THIS ISSUE.

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